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INTERNATIONAL FINANCE CORPORATION

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Mr. FULBRIGHT, from the Committee on Banking and Currency,
submitted the following

R E P O R T

[To accompany S. 1894]

The Committee on Banking and Currency, to whom was referred the bill (S. 1894) to provide for the participation of the United States in the International Finance Corporation, having considered the same report favorably thereon with amendments and recommend that the bill as amended do pass.

On May 2, 1955, the President recommended to the Congress that legislation be enacted providing for United States participation in the International Finance Corporation. In this message the President explained the purpose and need for participation:

The entire free world needs capital to provide a sound basis for economic growth which will support rising standards of living and will fortify free social and political institutions. Action to that end by cooperating nations is essential.

In its own enlightened self-interest, the United States is vitally concerned that capital should move into productive activities in free countries unable to finance development needs out of their own resources.

Government funds cannot, and should not, be regarded as the basic sources of capital for international investment. The best means is investment by private individuals and enterprises. The major purpose of the new institution, consequently, will be to help channel private capital and experienced and competent private management into productive investment opportunities that would not otherwise be developed. Through the Corporation we can cooperate more effectively with other people for mutual prosperity and expanding international trade, thus contributing to the peace and the solidarity of the free world.

On May 4, 1955, Senators Fulbright and Capehart introduced S. 1894 to carry out the recommendations of the President.

Secretary of the Treasury Humphrey, in his testimony supporting the bill, stated:

The International Finance Corporation has been proposed as one way of encouraging new foreign private investment. The IFC is to serve as a catalyst in stimulating private investment. It is not another type of government-to-government aid. Instead, by assisting private ventures on a business basis, the IFC will

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give concrete expression to the basic American conviction that economic development is best achieved through the growth of private enterprise.

The IFC will, we hope, generate an increased flow of private capital not merely by providing financial support but also by giving additional confidence to American and other firms that are interested in going abroad but are deterred by lack of knowledge and experience. I am convinced that there are many companies—mostly middle-sized and small firms—that will engage in overseas operations if they can get IFC participation, but which would not do so solely on their own. I also believe that the proposed clearinghouse function of the IFC—bringing investment opportunities in capital-importing countries to the attention of potential investors in the more advanced countries—may prove to be a very important service.

The purpose of the bill is to provide for participation by the United States in the International Finance Corporation (IFC). The bill authorizes the President to accept membership in the IFC for the United States; it authorizes the payment of the United States subscription of \$35,168,000; it provides for the coordination of the United States representatives to IFC within the framework of the National Advisory Council on International Monetary and Financial Problems; it requires the approval of Congress for certain major actions on behalf of the United States with respect to IFC, such as accepting amendments to the Articles of Agreement; it provides certain immunities and privileges for IFC; and contains other technical provisions necessary to make effective United States participation.

IFC would be an international organization, whose members would be members of the International Bank, affiliated with the International Bank through common membership in their boards of directors and boards of governors, with an authorized capital of \$100 million. Its objective would be to encourage the growth of productive private enterprise in its member countries, particularly the less developed areas, by—

Investing in productive private enterprise, in association with private investors and without governmental guaranty of repayment where sufficient private capital is not available on reasonable terms;

Serving as a clearinghouse to bring together investment opportunities, private capital, and experienced management;

Creating conditions conducive to and otherwise stimulating the productive investment of private capital.

IFC is intended to provide venture capital but is not authorized to invest in capital stock or to assume responsibility for managing an enterprise in which it has invested. IFC will revolve its funds by selling its investments to private investors whenever it can appropriately do so on satisfactory terms.

On December 11, 1954, the General Assembly of the United Nations adopted a resolution, by vote of 50 to 0, with 5 abstentions, endorsing the concept of IFC and requesting the International Bank to take steps to bring IFC into being.

On April 11, 1955, the executive directors of the International Bank for Reconstruction and Development approved for submission to the member governments the Articles of Agreement of the International Finance Corporation, accompanied by an explanatory memorandum, which were then transmitted by the International Bank to the member governments for their consideration. On May 2, 1955, the President transmitted to the Congress a message recommending that the United States participate in the IFC.

On June 6 and 7, 1955, public hearings were held by this committee at which Secretary of the Treasury Humphrey, Assistant Secretary of State Waugh, President of the Export-Import Bank Edgerton, and representatives of the United States Council of the International Chamber of Commerce, the Investment Bankers Association of America, the American Farm Bureau Federation, and the Washington Board of Trade testified in support of the bill. Letters and statements in support of the bill were received from the Secretary of Commerce, the Director of the Foreign Operations Administration, the Acting Secretary of Agriculture, the American Bankers Association, and the Committee for a National Trade Policy. The president of the National Foreign Trade Council testified in opposition to S. 1894.

There is virtually universal agreement that increased investment and development are desirable in those areas of the free world which are now underdeveloped.¹ Many benefits would result to the people of those areas through raising their standards of living, often tragically low; to the United States through increasing in those areas the consumption of American agricultural and industrial products; and to the entire free world, including the underdeveloped areas, by relieving the discontent and unrest which make a fertile field for Communist activities.

There is general agreement that private investment in the underdeveloped areas is preferable, as a matter of policy, though in certain circumstances public grants or loans are necessary and desirable.

Currently private United States and other capital flowing into the underdeveloped regions is concentrated in relatively few areas and only a few industries, particularly oil and mining. Private capital for general industrial and commercial purposes in these areas is generally conceded to be inadequate.

IFC would contribute to stimulating private capital investment in several ways.

The use of its own funds, multiplied many times by the private capital with which it would be associated, would be the most direct form of stimulation. Assistant Secretary Waugh gave examples of the kinds of situations in which the direct financing authority might be used:

A group of potential investors in a less developed country approached a New York investment banker with a proposal to finance a fish cannery in their country, estimated to cost \$3 million. They can raise \$1 million, and ask the investment banker to raise the remaining \$2 million and to find experienced management. The banker interests an experienced California fishing company which is willing to invest \$1 million and to undertake the management if it can get an opportunity to buy control at a later date. The investment banker asks the Corporation (IFC) to provide a loan of \$1 million, offering to give the Corporation debentures convertible into common stock by a purchaser from the Corporation. The fishing company proposes that it be given a first refusal on any sale by the Corporation of its convertible debentures.

Cases such as this would serve as examples to private investors of the opportunities of such foreign investments, and similar arrangements might be made without IFC participation.

The IFC would also serve as a clearinghouse to bring together investment opportunities, domestic and foreign private capital, and

¹ Report to the President by the International Development Advisory Board, March 1951 (Rockefeller Report); Report to the President by the Public Advisory Board from Mutual Security, February 1953 (Bell Report); Report to the President and the Congress by the Commission on Foreign Economic Policy, January 1954 (Randall Report), p. 16, and p. 5 of minority report; Report of the Citizens Advisory Committee to the Committee on Banking and Currency, December 1954

experienced management. A clearinghouse of this sort, on a wide international basis with direct access to the world's principal capital markets would have great possibilities.

The IFC would also have the function of stimulating and helping to create conditions conducive to the flow of private capital into productive investment in member countries. One of the principal drawbacks to private foreign investment is the unfavorable investment climate which exists, or is thought to exist, in foreign countries, particularly underdeveloped areas.

The IFC could serve as a forum for the discussion of the problems of private investors in the member countries. As an international organization with no particular national interest, it could make suggestions and help to bring about improvements in investment laws and practices in cases where the member might consider it improper if an agency of another nation were to make similar suggestions.

IFC would be of particular importance to small and medium-sized firms and investors. In the first place small enterprises frequently need investment funds beyond their own resources and beyond what they can raise in normal banking channels. In the second place, the experience of IFC in dealing with foreign problems will be available to assist such small firms and investors directly, while the improvement in the investment climate of underdeveloped areas brought about by IFC will make it easier for these small groups to invest abroad.

One of the problems of the underdeveloped regions is the low rate of capital formation. What capital there is, all too frequently is put into unproductive uses, or invested in the more highly developed areas. The examples of productive and profitable enterprises which IFC would help to start in these areas would generate local confidence and increase the available supply of local capital.

AMENDMENTS

Technical amendments were made in sections 3 and 4 of the bill.

ANALYSIS OF THE ARTICLES OF AGREEMENT OF THE INTERNATIONAL FINANCE CORPORATION

ARTICLE I—PURPOSE

The purpose of the IFC is "to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas." In carrying out this purpose, the articles provide that the Corporation shall:

(i) In association with private investors, assist in financing the establishment, improvement, and expansion of productive private enterprises which would contribute to the development of its member countries by making investments without guaranty of repayment by the member government concerned, in cases where sufficient private capital is not available on reasonable terms;

(ii) Seek to bring together investment opportunities, domestic and foreign private capital, and experienced management; and

(iii) Seek to stimulate, and to help create conditions conducive to, the flow of private capital, domestic and foreign, into productive investment in member countries.

ARTICLE II—MEMBERSHIP AND CAPITAL

Membership in IFC is limited to members of the International Bank. The 100,000 shares of stock will provide a total capital of \$100 million for the IFC. The initial subscriptions are payable in full in gold or United States dollars within 30 days after IFC begins operations. Shares of stock shall not be pledged or encumbered and shall be transferred only to the IFC. A schedule attached to the articles specifies the number of shares and amount available for subscription in each country, ranging from the United States with 35,168 shares and a subscription of \$35,168,000 and the United Kingdom with 14,400 shares and a subscription of \$14,400,000, to Nicaragua with 9 shares and a subscription of \$9,000 and Panama with 2 shares and a subscription of \$2,000.

Countries which do not become original members by joining IFC before December 31, 1956, may join later under terms prescribed by IFC, and the capital stock may be increased by majority vote by as much as 10,000 shares in order to make possible such subsequent memberships. A three-fourths majority of the total voting power may increase the capital stock of IFC, in which event members may subscribe to their proportionate share of the increase.

ARTICLE III—OPERATIONS

The Corporation is authorized to make investments of its funds in productive private enterprises in the territories of its members. It is prohibited from investing in capital stock, but otherwise may make investments of its funds in any form considered appropriate in the circumstances, including investments convertible to capital stock by a holder other than IFC. The Corporation is prohibited from exercising the right to subscribe to or convert an investment into capital stock. In the event of actual or threatened default, insolvency, or similar situations jeopardizing the investment, IFC may take any action necessary to protect its interests.

The articles set forth certain principles which are to guide its operations:

(i) The Corporation shall not undertake any financing for which in its opinion sufficient private capital could be obtained on reasonable terms;

(ii) The Corporation shall not finance an enterprise in the territories of any member if the member objects to such financing;

(iii) The Corporation shall impose no conditions that the proceeds of any financing by it shall be spent in the territories of any particular country;

(iv) The Corporation shall not assume responsibility for managing any enterprise in which it has invested;

(v) The Corporation shall undertake its financing on terms and conditions which it considers appropriate, taking into account the requirements of the enterprise, the risks being undertaken by the Corporation, and the terms and conditions normally obtained by private investors for similar financing;

(vi) The Corporation shall seek to revolve its funds by selling its investments to private investors whenever it can appropriately do so on satisfactory terms;

(vii) The Corporation shall seek to maintain a reasonable diversification in its investments.

Funds received by or payable to IFC in respect to its investments are not exempt by reasons of the articles from generally applicable foreign exchange restrictions, regulations, and controls. The IFC is authorized to borrow funds and to furnish security therefor but must, before

making a public sale of its obligations in the markets of a member, obtain the approval of that member and the member in whose currency the obligations are to be denominated. It may invest its funds not needed for financing and its pension or other similar funds; and may guarantee securities in which it has invested in order to facilitate their sale, and exercise such powers incidental to its purpose as is necessary to its purpose.

The Corporation shall not interfere in the political affairs of its members, and its decisions shall be based only on relevant economic considerations.

ARTICLE IV—ORGANIZATION AND MANAGEMENT

The articles provide that the members of the bank's Board of Governors and their alternates, and the members of the bank's Board of Executive Directors and their alternates shall exercise ex officio the same offices in the IFC, if the countries they represent in the bank become members of the Corporation. The president of the bank is Chairman of the Board of Directors of the IFC. The president of IFC is appointed on the recommendation of the Chairman and the concurrence of the Board of Directors of IFC. All powers of the Corporation are vested in the Board of Governors and they may delegate to the Board of Directors authority to take all but certain specified major actions. Each member has 250 votes plus 1 additional vote for each share of stock held.

IFC is an entity separate and distinct from the bank and its funds must be kept separate and apart from the International Bank. IFC cannot lend to or borrow from the International Bank. However, it is authorized to make use of the facilities, personnel, and services of the International Bank. Its principal office is to be in the same locality as the principal office of the International Bank—Washington, D. C.

The Board of Governors is authorized to distribute shares of IFC's net income and surplus after making provisions for the reserve to be distributed in proportion of the capital stock held by the members.

ARTICLE V—WITHDRAWAL AND SUSPENSION

The articles provide that a member may at any time withdraw from IFC. A member may be suspended by IFC, if it has failed to fulfill any of its obligations to IFC. A member of IFC which is suspended from membership in, or ceases to be a member of, the International Bank shall automatically be suspended from membership in, or cease to be a member of, IFC. The articles provide for repayment of the amount subscribed by the former member.

The articles also provide for suspension of the operations of the IFC and its orderly liquidation.

ARTICLE VI—STATUS, IMMUNITIES, AND PRIVILEGES

The articles give to IFC the same status, immunities, and privileges given to the International Bank under the Bretton Woods Agreements Act. These are as follows:

1. The Corporation will have full juridical personality, including the ability to make contracts, to acquire and dispose of all kinds of property, and to sue in United States or other courts.

2. It will be subject to suit where it has an office or an agent to accept service of process or where it has issued or guaranteed securities, but its property cannot be seized or attached except after a final judgment against it.

3. The property and assets of the Corporation will be immune from search, requisition, confiscation, expropriation, or any other form of seizure by executive or legislative action.

4. The archives of the Corporation will be inviolable.

5. All property and assets of IFC are to be free from restrictions, regulations, controls, or moratoria of any nature, to the extent necessary to carry out the articles and subject to the provision that investments by IFC shall not thereby be exempted from generally applicable foreign exchange, restrictions, regulations, and controls.

6. The officials and employees, including governors and directors, will be immune from legal process with respect to their official acts, and will receive the same treatment as comparable employees in the diplomatic service of their own country.

8. The Corporation will be immune from taxation, and each officer and employee will be immune from taxation on his salary and emoluments by any country other than his own. Securities issued or guaranteed by the Corporation will be protected against discriminatory taxation, but will have no special tax privileges.

9. If the Corporation winds up its affairs and distributes its assets to members, they would have the same privileges and immunities as to those assets that the Corporation had before distribution.

ARTICLE VII—AMENDMENTS

The Articles of Agreement may be amended by vote of three-fifths of the governors exercising four-fifths of the total voting power, except that unanimous approval is required in case of amendments modifying the right to withdraw, the preemptive right to purchase new stock, and the limitation on liability.

ARTICLE VIII—INTERPRETATION AND ARBITRATION

Questions of interpretation of provisions of the articles arising between a member and IFC or between members are to be submitted to the Board of Directors, and may be appealed to the Board of Governors. Disagreements between IFC and a former member may be submitted to arbitration.

ARTICLE IX—FINAL PROVISIONS

The articles are to enter into force when accepted on behalf of not less than 30 governments whose subscriptions comprise not less than 75 percent of the total subscriptions, but not before October 1, 1955. Participation in the IFC is evidenced by signature of the articles by depositing with the International Bank a statement setting forth that a government has accepted the articles in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under the articles. The articles will remain open for signature by the countries specified until December 31, 1956.

ANALYSIS OF S. 1894

The bill, as introduced, contains nine sections. They are summarized briefly below, with references to major changes from the provisions of the Bretton Woods Agreements Act (59 Stat. 512; 22 U. S. C. 286-286k) which relate to the International Bank for Reconstruction and Development.

SHORT TITLE

Section 1.—The first section provides that the act may be cited as the International Finance Corporation Act.

MEMBERSHIP

Section 2.—The President is authorized, by section 2, to accept membership for the United States in the Corporation. The effect of this section is to give congressional approval to the Articles of Agreement proposed by the Executive Directors of the International Bank.

GOVERNOR, DIRECTOR, AND ALTERNATES

Section 3.—This section makes the United States governor and his alternate and the United States executive director and his alternate, of the International Bank, governor, director, and alternates, respectively, for the Corporation. This is required by the Articles of Agreement of the Corporation. The governor and his alternate, who serve 5-year terms, and the executive director and his alternate, who serve 2-year terms, are nominated by the President and confirmed by the Senate. The governor and his alternate receive no compensation from the bank or the Corporation, while the executive director and his alternate are paid by the bank and the Corporation. None of these officials may, under section 3 (c) of the Bretton Woods Agreements Act, receive any compensation from the United States for their services in these capacities.

NATIONAL ADVISORY COUNCIL

Section 4.—This section makes the provisions of section 4 of the Bretton Woods Agreements Act with respect to the International Bank applicable to the Corporation. That section created the National Advisory Council on International Monetary and Financial Problems, to recommend general policy directives to the President for the guidance of the United States representatives to the International Monetary Fund, and the International Bank, and United States agencies making foreign loans or participating in foreign financial, exchange, or monetary transactions, to coordinate the policies and operations of these officials and agencies, and to make all decisions, under the general direction of the President, which the executive branch can make for the United States under the Articles of Agreement of the fund or the bank (see sec. 5 for actions not to be taken without authorization by the Congress). In addition the National Advisory Council submits semiannual reports and biennial reviews and recommendations on the activities of the fund and the bank, which under this section would also cover the Corporation.

AMENDMENTS

Section 5.—Fundamental changes in the Corporation or in the participation of the United States in the Corporation are prohibited by section 5 unless the Congress approves them. The following are prohibited except with the authorization of the Congress: (1) Any subscription by the United States to additional shares of stock of the Corporation, (2) the acceptance of any amendment to the Articles of Agreement, (3) any loan to the Corporation by the United States or any agency of the United States, and (4) voting on behalf of the United States for an increase in the capital stock of the Corporation. As the vote of the shares of the United States would be necessary for an amendment to the Articles of Agreement or an increase in the capital stock (except in the case of additional stock up to 10,000 shares to be issued to new members), such changes could not be effected without the approval of the Congress. Comparable restrictions on actions with respect to and under the Articles of Agreement of the bank were imposed under the Bretton Woods Agreements Act.

DEPOSITORIES

Section 6.—The Federal Reserve banks are required, on request, to act as depositories or fiscal agents of the Corporation, and in so acting they will be supervised and directed by the Board of Governors of the Federal Reserve System.

SUBSCRIPTION AND DIVIDENDS

Section 7 (a).—This section authorizes the Secretary of the Treasury to issue United States Government bonds and to use the proceeds to pay the United States subscription of \$35,168,000 (out of a total of \$100 million). This is the usual method of providing capital for investment in Government corporations, and was used for providing funds for the United States subscription to the International Bank.

Section 7 (b).—This requires that money received by the United States as dividends from the Corporation is to be paid into the general fund of the Treasury, which can only be used in accordance with appropriations by the Congress.

LITIGATION

Section 8.—Whenever the Corporation is a party to litigation in the United States, the district courts of the United States will have jurisdiction to try the case. Removal of cases where the Corporation is a defendant from a State court to a Federal court is also authorized.

STATUS, IMMUNITIES, AND PRIVILEGES

Section 9.—This section gives full force and effect in the United States, its Territories, and possessions, to the provisions of article VI of the Articles of Agreement, which confer upon the Corporation the same legal status and immunities and privileges given to the International Bank under the Bretton Woods Agreements Act (set forth above).

